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Economy Declines: PMI Falls to 49.7%

Inflation Index Lowest Since December 1985

Employment Declines

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

May Report

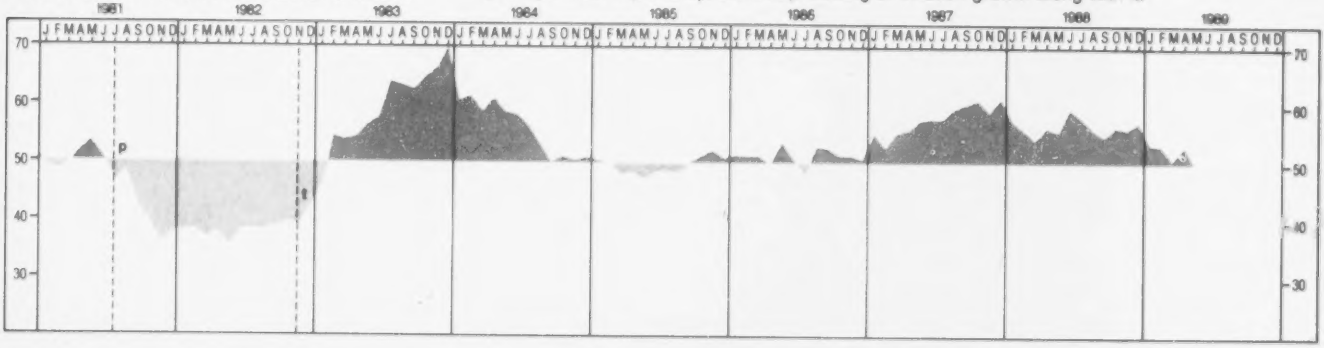
The economy declined slightly in May for the first time since July 1986, say the nation's purchasing executives in their latest ***Report On Business.*** **Production** continued to grow, although at a significantly slower pace than in April. **New Orders** continued to expand in May, but also at a reduced rate. Once again, Inventory buying did not supply the growth in Production. **Inventories** decreased sharply in May for the fifth consecutive monthly decline.

New Export Orders increased in May at a somewhat slower rate of growth. Of the 69% of members who said they export, 25% reported better Export Orders, down slightly from 28% in April. The 5% who reported worse Export Orders is up a bit from 4% in April. It appears obvious from the seasonally unadjusted index of 60.0% which was only moderately lower than 62.0% in April, that exports continue to fuel the economic growth.

Vendor Deliveries were faster in May for the first time since September 1986 (49.6%). The Vendor Delivery index fell sharply to 49.3%, the lowest since December 1985 (also 49.3%). The number of commodities reported in short supply was the fewest since November 1987. **Employment** declined for the fourth consecutive month. The trend in inflation continued sharply downward, as purchasing executives have been forecasting since December and reporting since mid-1988.

The ***Report*** was issued today to Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The total economy resumed it's ratcheting path toward slower growth during May. The manufacturing economy reported the first decline in growth in almost three years. Expanding exports and increased capital expenditures are providing the real growth. Virtually all indicators confirmed the slowing of the economy, and, perhaps most importantly, the sharp slowing of inflation growth along with it."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

April	56.0	November	55.9
May	55.5	December	57.3
June	59.2	January '89	53.2
July	57.9	February '89	53.0
August	55.7	March '89	50.4
September	54.7	April '89	53.0
October	56.2	May '89	49.7

The **Purchasing Managers' Index** (PMI) declined to 49.7% in May, down sharply from 53.0% in April. This breaks the string of 33 consecutive months this leading indicator has registered over 50% and clearly quickens the pace of the economic slowdown. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz added, "The PMI has averaged 51.9% for the first five months of 1989. Past experience indicates that if this average were to continue for the balance of the year, it would be consistent with real GNP growth of about 2.5%, or roughly the same as in the first quarter. The PMI would have to fall below 44% before signalling negative real GNP."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state; and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

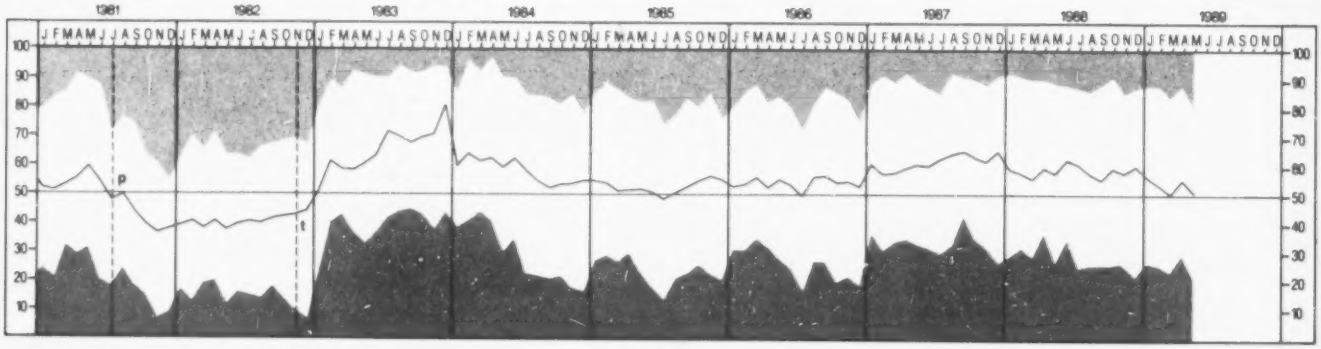
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

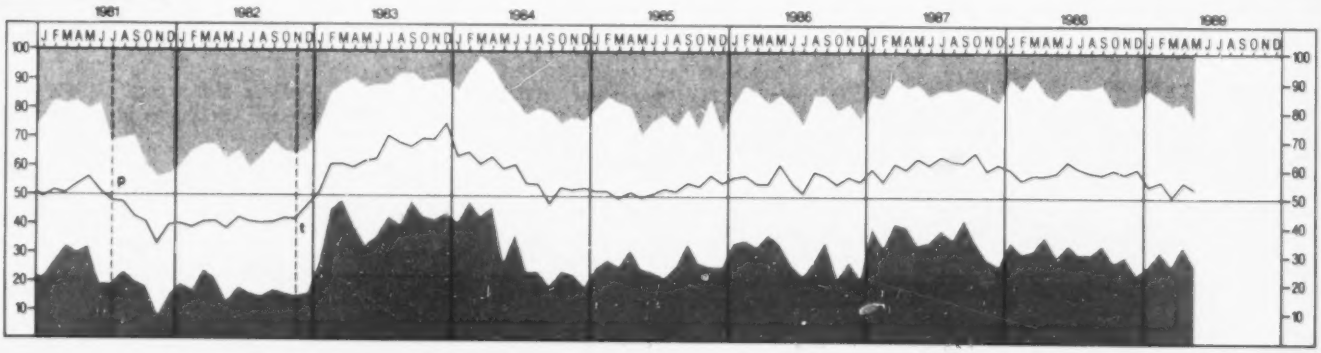
PRODUCTION



Production expanded in May for the 34th consecutive month. However, the Production index fell significantly to 51.1% from the brisk 55.5% of April, thus resuming the slowing growth trend which temporarily reversed direction last month.

Production	%Better	%Same	%Worse	Net	Index
May	22	59	19	+ 3	51.1
April	30	58	12	+18	55.5
March	24	60	16	+ 8	50.7
February	26	62	12	+14	53.7

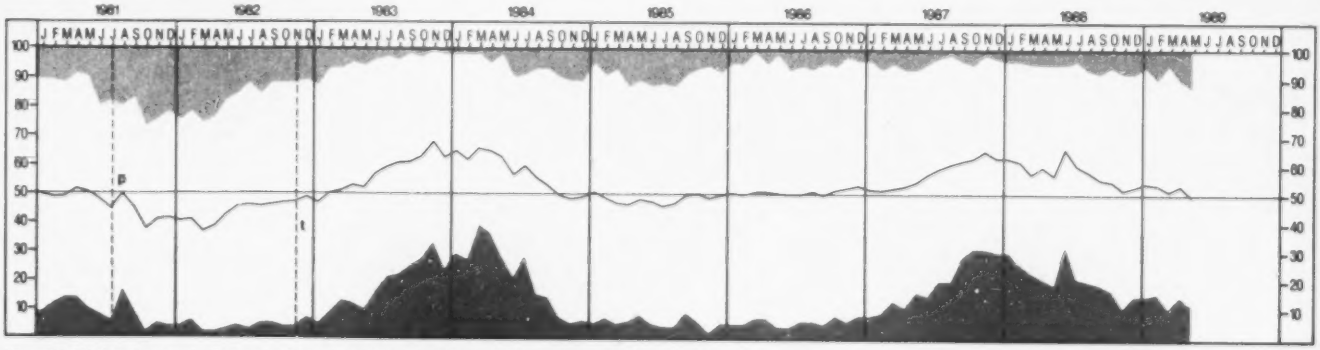
NEW ORDERS



New Orders grew in May marking the fourth anniversary of consecutive growth. Although the New Order index slowed to 53.4% from 55.3% in April, it still suggests continued modest growth. The majority of this growth undoubtedly is a result of continuing strength in new export orders.

New Orders	%Better	%Same	%Worse	Net	Index
May	27	50	23	+ 4	53.4
April	34	49	17	+17	55.3
March	27	55	18	+ 9	50.9
February	32	53	15	+17	55.9

VENDOR DELIVERIES



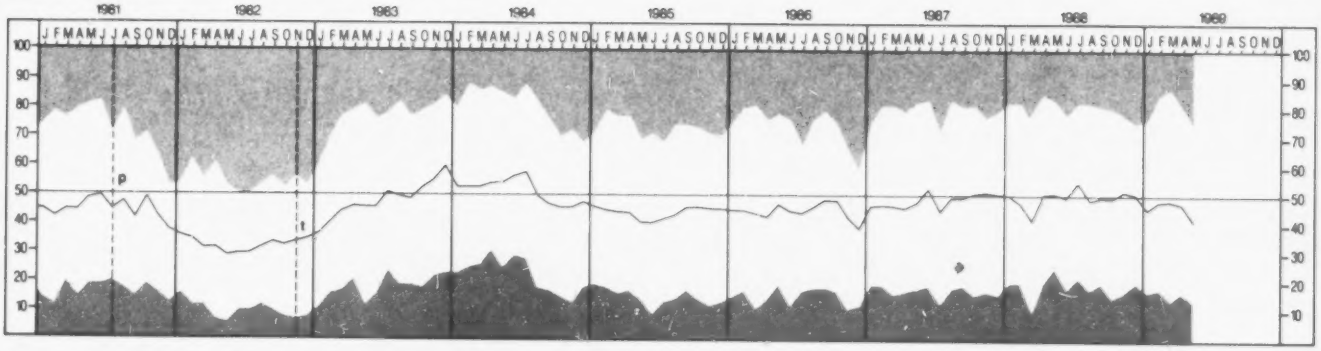
Vendor Deliveries were faster in May, breaking a string of 31 consecutive months in which Vendor Deliveries were reported slower. Faster deliveries generally indicate a slowing economy. The Vendor Deliveries index dropped sharply to 49.3%, the lowest in almost three and a half years (December 1985 — also 49.3%). Also meaningful was the fact that the number of commodities reported in short supply declined to 12, the fewest since November 1987 (11).

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
May	12	75	13	- 1	49.3
April	15	74	11	+ 4	53.2
March	11	84	5	+ 6	51.2
February	18	74	10	+ 6	53.3

IN SHORT SUPPLY:

Steel (23rd time in 25 months), **Stainless Steel** (15th time in 17 months), **Castings** (6th time in 9 months), **Bleached Paperboard** (11th consecutive month), **Wood Pulp** (used in making all grades of paper and linerboard), **Acrylic Acid** (10th time in 11 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (24th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Titanium Dioxide** (22nd consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Zircon** (2nd consecutive month; used in making glass), **Polyester** (4th consecutive month; reported to be on allocation), **Bearings** (10th consecutive month; a consequence of anti-dumping suits), **Motors** (2nd consecutive month).

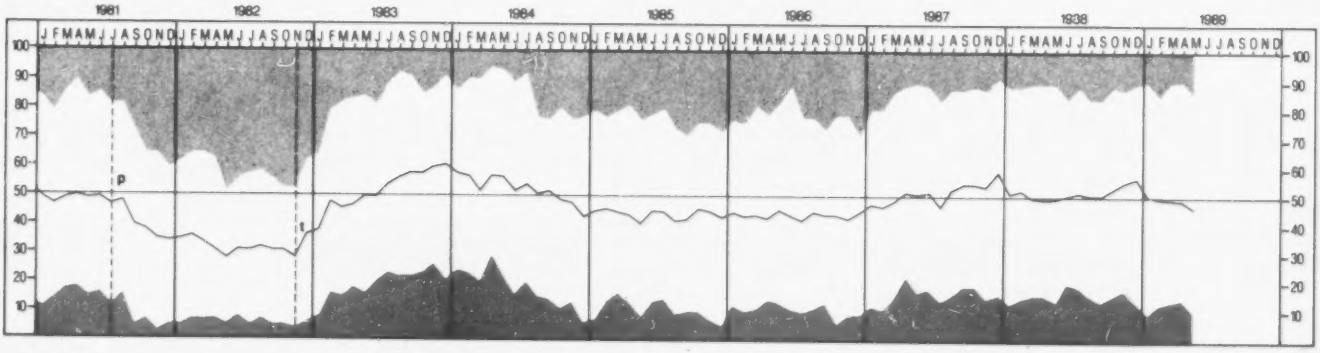
INVENTORIES



May marked the fifth consecutive month that purchasers reported a decline in inventories. This month's decline in the Inventories index to 41.9%, from 47.4% in April, was the most dramatic in some time and the lowest the Inventories index has been in almost four years (July 1985 — 41.8%). Purchasers appear to be more confident about material shortages dissipating as they face the usual summer slowdown in activity.

Inventories	%Higher	%Same	%Lower	Net	Index
May	14	61	25	−11	41.9
April	17	64	19	− 2	47.4
March	14	73	13	+ 1	48.6
February	18	67	15	+ 3	48.1

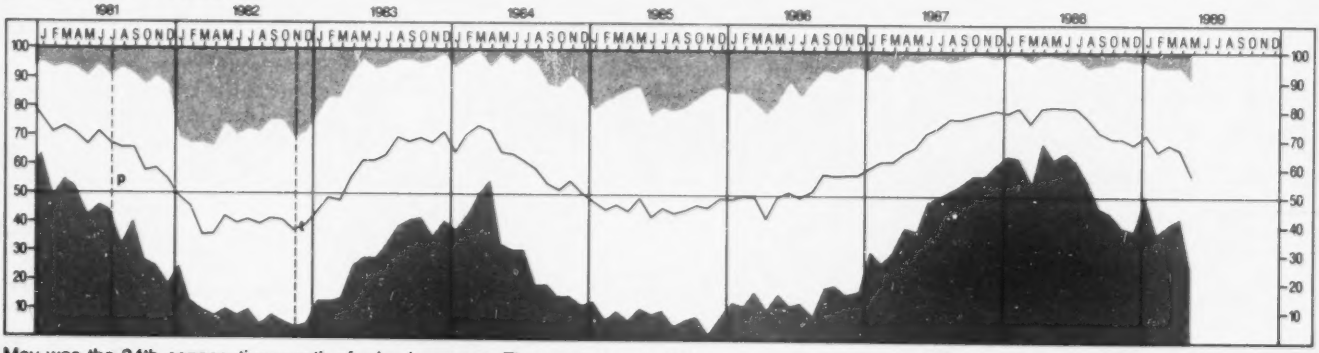
EMPLOYMENT



For the fourth consecutive month, Employment declined. The Employment index dropped to 46.6%, significantly weaker than in April (49.2%). The index at 46.6% is now the lowest in over two years (February 1987 — also 46.6%) and mirrors the growing caution with which manufacturers view the slowing in the economy.

Employment	%Higher	%Same	%Lower	Net	Index
May	11	75	14	−3	46.6
April	15	75	10	+5	49.2
March	14	76	10	+4	49.4
February	13	72	15	−2	49.7

COMMODITY PRICES



May was the 34th consecutive month of price increases. The good news is that the growth in price increases fell sharply in May. The Price index plunged to 57.6% from 66.5% in April and the lowest since December 1986 (57.0%). Of added significance is that only 11 items were reported up in price, the fewest since February 1987 (7 items). Perhaps more importantly, 10 commodities were reported down in price, almost the same number that increased, and the most since July 1986 (also 10 items).

Prices	%Higher	%Same	%Lower	Net	Index
May	25	65	10	+15	57.6
April	43	52	5	+38	66.5
March	41	54	5	+36	66.3
February	38	57	5	+33	66.0

UP IN PRICE:

Lead (3rd time in 5 months; reported lower priced in April; used heavily in making paints, petroleum pipe and batteries), **Steel** (32nd time in 33 months; some reports of price decreases), **Bearings** (10th time in 11 months), **Castings** (8th time in 10 months), **Corrugated Shipping Containers** (3rd consecutive month), **Caustic Soda/Soda Ash** (30th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Titanium Dioxide** (2nd consecutive month; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), **Miscellaneous Chemicals** (4th consecutive month), **Corn Starch** (used heavily in processed foods, making corrugated shipping containers, paper and other industrial applications), **Polyester** (6th consecutive month), **Fuel Oil** (6th consecutive month).

DOWN IN PRICE:

Aluminum (2nd consecutive month), **Zinc** (used heavily in metal alloys and as a protective coating for metal), **Ethylene** (used heavily in making ethylene oxide, plastic resins and glycols), **Methanol** (4th time in 5 months; used heavily as a solvent and in synthesizing other chemicals), **Methyl Ethyl Keytone (MEK)** (2nd time in 3 months; used heavily as a chemical solvent in surface coatings and in making resins), **Polyethylene Resin** (2nd consecutive month; used heavily in making packaging materials and paper coatings), **Polypropylene** (4th consecutive month; used heavily in making packaging materials and paper coatings), **Polystyrene** (used chiefly in making synthetic rubber, plastic resins and plastic), **Styrene** (used chiefly in making synthetic rubber, plastic resins and plastic), **DRAMS** (dynamic electronic memory devices used heavily in computers).

BUYING POLICY

Lead times for Capital Expenditures have not significantly changed over the past three months. Members reporting lead times in the significant 6 months and longer category for Capital Expenditures slipped only slightly to 55% from 56% in April. This is near the average reported for the last three months. Lead times for Production Materials were also virtually unchanged except that the number of purchasers reporting lead times of 30 days or less increased to 51%, up from 49% last month. Lead times for Maintenance, Repair and Operating (MRO) supplies declined as the number of members reporting lead times of 30 days or less increased to 84%, up from 81%.

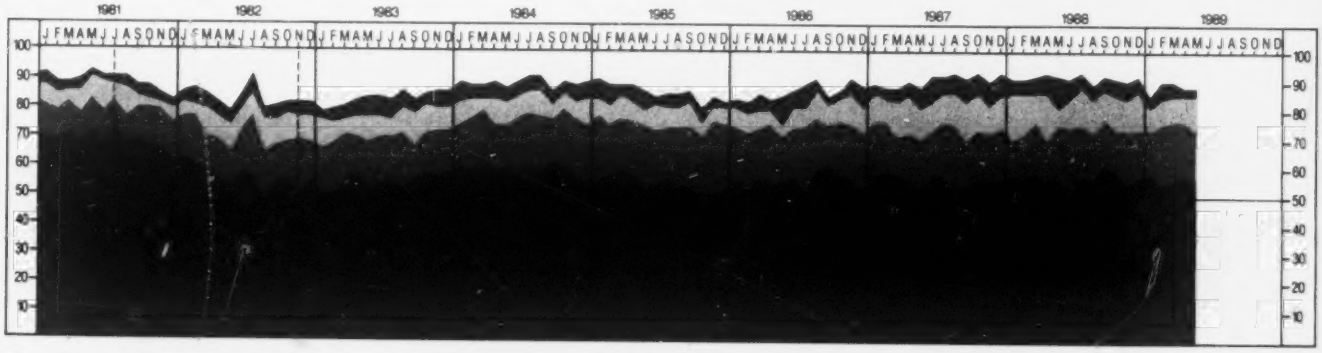
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
May	13	3	12	17	55
April	13	3	9	19	56
March	11	5	9	21	54
February	11	6	9	21	53

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
May	14	37	31	13	5
April	14	35	33	13	5
March	15	37	28	14	6
February	12	39	25	16	8

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
May	37	47	13	2	1
April	39	42	14	4	1
March	41	46	12	1	0
February	42	42	13	2	1

CAPITAL EXPENDITURES



Commodity Report
May, 1989

STEEL

Prepared by the NAPM Steel Committee: John Nevin, CSX Transportation.

The domestic steel industry started 1989 on a strong financial basis with reported profits last year estimated at $2 billion. This is remarkable in light of $12 billion in losses during the early to mid-1980's. The Voluntary Restraint Agreements (VRA) are scheduled to expire September 30, 1989, though the steel companies and labor want extensions. It appears that they will be extended with some modifications, as the Bush Administration seems committed to some form of extension. The major integrated steel companies labor contract expires July 31, 1989, with the exception of USX and the companies in Chapter 11 reorganization. Bethlehem Steel has reached a tentative agreement with the United Steelworkers that is estimated to boost wages and benefits by 20 percent over 50 months. Will this agreement lead to higher prices and does this mark the return to the old wage-price spiral that was one of big steel's problems during the past decade? The apparent generosity of this agreement may jeopardize the steel industry's attempt to extend the VRA's. The economic outlook for the balance of 1989 is mixed. Many economists are forecasting a dip beginning in the second half of this year and continuing into 1990. The Steel Buyer's April Survey supports an easing in economic activity during the next six months; the percentage of those looking for a downward movement is the highest since December 1987. But the greatest percentage of respondents expect economic activity over the next six months to be unchanged from current levels. Another question mark on the steel industry's ability to compete in the global marketplace is the recent strength of the dollar, which is at a nine-month high. Partially offsetting the anticipated pattern-setting Bethlehem Steel contract, the possible slowdown in the economy, and the strengthening dollar, are the productivity gains in the steel industry, which have more than doubled since 1982. The balance of 1989 will be a challenge for the domestic steel industry, which appears to be structurally positioned to take advantage of current business conditions or to weather any downturn in the economy.

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